Traditionally, most Canadian cannabis companies, and more specifically, federally licensed producers looking to increase capital have looked to one place equity financing. While companies in other industries are able to increase capital and grow by way of debt financing, this option did not exist for companies in the cannabis industry for a multitude of reasons. This included uncertainty surrounding legalization as well as the squamishness of institutional lenders to get involved with the industry. Though cannabis companies have been able to raise capital through equity financing, it usually comes at the price of share dilution, which can be especially painful for founders and early shareholders.

As we move towards legalization this October, and the clarity that comes with it, it appears there is a shift in the industry toward debt financing as a strategy to increase capital, expand and in order to avoid traditional forms of financing used in the cannabis industry that may result in share dilution.

Aurora Cannabis Inc. (“Aurora”), one of Canada’s major licensed producers with a market cap currently over $5 million dollars, is an early mover in adopting debt financing as a strategy. On June 26th, 2018, Aurora and the Bank of Montreal (“BMO”) announced a $200 million dollar debt facility, with the potential to upsize to $250 million dollars. The loan will be primarily be secured by Aurora’s production
facilities, which includes Aurora Sky, an 800,000 square foot production facility located in Edmonton, among other collateral.

The Aurora deal marked the first time a Tier 1 Bank provided debt financing in the cannabis industry, which is no small milestone as only a short time ago lenders were hesitant to be involved with the industry. This is, in part, because lenders were wary of the value of, and their ability to take adequate security, given potential unknown or untested regulatory roadblocks. Major institutions are now coming up with creative ways to secure collateral, and the willingness to do so by large players is expected to cause a ripple effect across other lenders as we move closer to legalization of the recreational market.

Alternative lenders such as credit unions have already entered the fray, including WFCU Credit Union, which recently provided Aphria Inc. ("Aphria") with Twenty Five Million ($25,000,000.00) Dollars in debt financing secured against the real estate owned by Aphria as well as general security agreement against Aphria’s accounts receivables and inventory.

The coming wave of debt financing may be an incredible opportunity for both borrowers and lenders in the cannabis industry alike. Lenders can more confidently enter the burgeoning industry as the clarity around legalization increases and they can more comfortably take security against real property and inventory of cannabis companies. Borrowers will benefit by being given more access to much needed financing, and, as competition increases among lenders, at reasonable interest rates.

As the tide shifts towards debt financing, it will not be a question of whether institutional lenders, secondary lenders and cannabis companies benefit and profit, but a question of when and how much.
Canadian Cannabis Law

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